

Before the
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Rate Adjustment Due to Extraordinary or
Exceptional Circumstances

Docket No. R2013-11

QUESTIONS PROPOSED BY THE PUBLIC REPRESENTATIVE
FOR THE NOVEMBER 18-20, 2013, PUBLIC HEARING

(November 8, 2013)

Order No. 1847, as modified by P.O. Ruling R2013-11/1, establishes a November 8, 2013 deadline for suggesting questions to the Commission, which may be asked of the Postal Service during the November 18-20, 2013 public hearing.¹ If the Commission finds that any of the Public Representative's questions are too technical in nature for the public hearing, the Public Representative requests that the questions be asked by a Presiding Officer's Information Request. The Public Representative respectfully submits the following questions:

1. (Question for Mr. Nickerson) On page 3 of your statement, you estimate the total revenue and contribution losses through FY 2012 due to the exigency to be approximately \$6.6 billion. The Postal Service seeks to recover only \$1.78 billion of this amount annually. The Postal Service has not estimated how long the exigent rates will stay in effect.

¹ Notice and Order Concerning Exigent Request, September 30, 2013 (Order No. 1847); Ruling Adjusting Procedural Schedule, October 17, 2013 (P.O. Ruling R2013-11/1).

- a. If the rates stay in effect for 5 years, what amount will the Postal Service recover [\$8.9 billion]?
 - b. If the rates stay in effect for 10 years, what amount will the Postal Service recover [\$17.8 billion]?
 - c. Please confirm that these amounts exceed the estimated \$6.6 billion total exigent amount estimated through FY 2012.
2. (Question for Mr. Nickerson) On page 3 of your statement, Table 2 indicates that \$0.874 billion in exigent losses occurred in FY 2012. Assume that additional \$0.874 billion exigent losses continue to occur in each successive year thereafter, *i.e.*, the effects of the recession never ends. Further assume that after 4 years of new rates the initial approximately \$6.6 billion attributed to the recession has been recovered.
 - a. After 4 years, is it correct that the Postal Service will continue to recover \$0.906 billion [\$1.78 billion - \$0.874 billion] annually in excess of what has been attributed to the exigency?
 - b. Will the effects of the recession eventually dissipate, and if so what is your estimate of how long this will take?
 - c. Rate cap regulation is generally recognized as providing an incentive to take costs out of a system. What incentive is provided to reduce costs and right size the postal system by approving an exigent price increase in excess of what is due to the exigency?

3. (Question for Mr. Nickerson) On page 3 of your statement, you estimate the total revenue and contribution losses through FY 2012 due to the exigency to be approximately \$6.6 billion. The Postal Service seeks to recover only \$1.78 billion of this amount annually. It appears that the Postal Service is not seeking to recover the full amount that it believes it can justify at this time.
- a. Is the Postal Service holding the remaining \$4.82 billion [\$6.6 billion - \$1.78 billion] in reserve for a potential future exigent request, if needed, or is the \$1.78 billion all the Postal Service will ever seek due to the exigency caused by the recession?
 - b. If the Postal Service is holding the remaining \$4.82 billion in reserve, how is this consistent with the concepts of price cap regulation, and predictable and stable postal rates?
4. (Question for Mr. Nickerson) The Postal Service asks for postage rates that will generate an additional \$1.78 billion annually.
- a. Is the liquidity/cash flow problem one of the most pressing problems faced by the Postal Service today?
 - b. If the liquidity/cash flow problem did not exist, would the Postal Service be filing this exigent request?
 - c. If the liquidity/cash flow problem remains unresolved, does the Postal Service intend on reversing the effects of the exigent request after it recoups the estimated loss due to the recession?

5. (Question for Mr. Taufique) The Public Representative alerted the Postal Service that the volumes in Library Reference USPS-LR-R2010-4R/6, filename WP-SpecServ-R2010-4R, worksheet “Insurance”, rows F28 to F62 may not be accurate. If you concur that the volumes are not accurate, please provide a corrected worksheet.
6. (Question for Mr. Taufique) Periodicals did not cover costs by \$670 million in FY 2012. Does this place a drain on the Postal Service’s scarce resources? Please explain why the Postal Service chose not to ameliorate this problem by giving Periodicals’ products a significantly above average price increase in this docket?
7. (Question for Mr. Taufique) In Docket No. R2013-10 [CPI case], the Postal Service provided “rate shock” and “phased out over time” explanations for the greater than 100 percent passthroughs for “First-Class Mail Automation 5-digit Flats” and “Standard Mail Nonautomation 5-digit Nonmachinable Letters.” In light of the already large price increases proposed in this docket, why didn’t the Postal Service use this opportunity to focus its price increases on aligning these excessive discounts with avoided costs?
8. (Question for Mr. Taufique) Page 5 of your statement sets out criteria for adjusting price cells that are associated with worksharing passthroughs. Would you agree that passthroughs set at 100 percent are generally recognized to send efficient price signals? Please explain why the Postal Service didn’t bring passthroughs that were below 100 percent up to 100 percent, and bring passthroughs that were over 100 percent down to 100 percent?

9. (Question for Mr. Taufique) Page 17, Table 4 of your statement indicates a proposed 4.283 percent increase for Standard Mail Flats. This is less than the average price increase of 4.3 percent. In the 2010 ACD, the Commission directed the Postal Service to give above-average price increases to Standard Mail Flats. Is the proposed increase consistent with the 2010 ACD directive? Please explain.
10. (Question for Mr. Thress) Library Reference USPS-R2010-4R/10, filename "Sources of Change.xls" has 5 macro-economic variables that could affect volume changes: population, employment, retail sales, investment, and foreign trade.
 - a. A Hodrick Prescott Filter (HP Filter) was used to decompose trend and cyclical effects on employment. Why was the HP Filter not applied to the population, retail sales, investment, and foreign trade variables?
 - b. Running the Eviews Program, "deqn.prg," in USPS-R2010-4R-NP3, Non-public Econometrics, produces variables with these extensions: HPT_L, HPT_U, HPC_U, and HPC_L.
 - i. Please explain what these variable name suffixes represent.
 - ii. Were variables with these suffixes used in the final regression?
 - ii. Were the variables used in the "Sources of Change" and/or the "Exigent Impact" spreadsheets from Library Reference USPS-R2010-4R/10?

11. (Question for Mr. Thress) The Response to POIR No. 4, question 2, states:
“[A]dvances in communications using the Internet are largely continuations of pre-existing trends in non-mail-based communications. For example, smartphones are a new way to access the Internet, but, measured objectively via ‘Internet’ variables, trends in usage have actually slowed down in recent years.”
 - a. Have you explored new alternative sources of data on internet usage that might be appropriate for these new devices, such as average capacity used per second of transmission or per second of reception?
 - b. If you have explored new alternative sources, please provide a copy of the data series and cite your sources.

Respectfully submitted,

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